

CRESTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Rich Flynn	President	2006
Barb Wilmeth	Vice President	2005
Bobbie McFee	Board Member	2005
Robert Deranleau	Board Member	2007
Callie Bruce	Board Member	2006
Board of Education (After September 2005 Election)		
Barb Wilmeth	President	2008
Callie Bruce	Vice President	2006
Bobbie McFee	Board Member	2008
Robert Deranleau	Board Member	2007
Rich Flynn	Board Member	2006
School Officials		
Tim Hood	Superintendent	2006
Donald M. Krings	Board Secretary/ Business Manager	2006
Pat Moeller	District Treasurer	2006
Peter Pashler	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Creston Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Creston Community School District, Creston, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Creston Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2006 on our consideration of Creston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Creston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Creston Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,896,665 in fiscal 2005 to \$11,369,529 in fiscal 2006, while General Fund expenditures increased from \$11,007,761 in fiscal 2005 to \$11,679,656 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$1,311,912 in fiscal 2005 to a balance of \$1,064,959 in fiscal 2006, an 18.8% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and tuition revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in administration and operation and maintenance of plant services expenses.
- School Nutrition Fund turned a profit of \$47,491 during the year allowing the fund balance to increase from \$422,558 to \$470,049.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Creston Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Creston Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Creston Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Creston Community School District Annual Financial Report

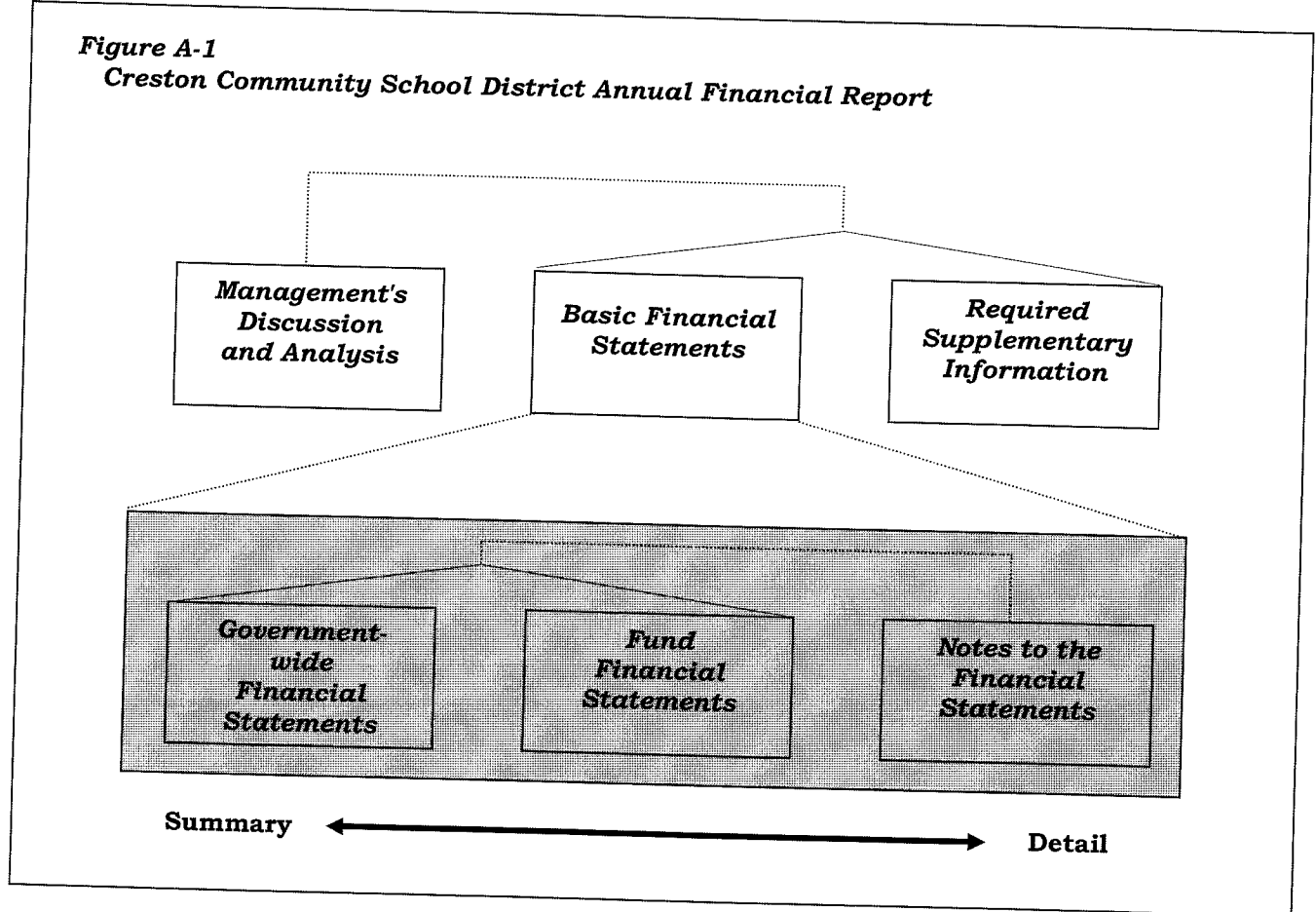


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the agency fund.

- Agency Fund - These are funds for which the District administers and accounts for certain employee's cafeteria health insurance premiums and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 6,785,309	6,732,689	218,313	153,354	7,003,622	6,886,043	1.71%
Capital assets	22,356,092	23,085,519	258,461	276,323	22,614,553	23,361,842	-3.20%
Total assets	29,141,401	29,818,208	476,774	429,677	29,618,175	30,247,885	-2.08%
Long-term obligations	13,666,363	14,481,710	0	0	13,666,363	14,481,710	-5.63%
Other liabilities	4,968,541	3,997,919	6,725	7,119	4,975,266	4,005,038	24.23%
Total liabilities	18,634,904	18,479,629	6,725	7,119	18,641,629	18,486,748	0.84%
Net assets:							
Invested in capital assets, net of related debt	9,470,736	9,597,674	258,461	276,323	9,729,197	9,873,997	-1.47%
Restricted	215,719	339,438	0	0	215,719	339,438	-36.45%
Unrestricted	820,042	1,018,328	211,588	146,235	1,031,630	1,164,563	-11.41%
Total net assets	\$ 10,506,497	10,955,440	470,049	422,558	10,976,546	11,377,998	-3.53%

The District's combined net assets decreased by 3.53% or approximately \$401,452 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$123,719 or 36.45 percent over the prior year.

Unrestricted net assets- the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements- decreased \$132,933 or 11.41 percent. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 944,546	1,340,464	305,184	304,278	1,249,730	1,644,742	-24.02%
Operating grants and contributions and restricted interest	1,887,754	1,551,076	442,605	364,563	2,330,359	1,915,639	21.65%
Capital grants and contributions and restricted interest	367,068	0	0	0	367,068	0	100.00%
General revenues:							
Local tax	3,716,006	3,650,840	0	0	3,716,006	3,650,840	1.78%
Local option sales and service tax	934,971	1,024,628	0	0	934,971	1,024,628	-8.75%
Unrestricted state grants	5,960,287	5,815,229	0	0	5,960,287	5,815,229	2.49%
Other	549,327	69,887	4,672	900	553,999	70,787	682.63%
Total revenues	14,359,959	13,452,124	752,461	669,741	15,112,420	14,121,865	7.01%
Program expenses:							
Governmental activities:							
Instructional	7,992,119	7,720,096	0	0	7,992,119	7,720,096	3.52%
Support services	3,799,183	3,575,226	0	0	3,799,183	3,575,226	6.26%
Non-instructional programs	0	0	704,970	662,678	704,970	662,678	6.38%
Other expenses	3,017,600	1,735,394	0	0	3,017,600	1,735,394	73.89%
Total expenses	14,808,902	13,030,716	704,970	662,678	15,513,872	13,693,394	13.29%
Net income before restatement and capital contributions	(448,943)	421,408	47,491	7,063	(401,452)	428,471	-193.69%
Capital asset restatement (Note 10)	0	(383,139)	0	0	0	(383,139)	100.00%
Capital contributions	0	0	0	181,014	0	181,014	-100.00%
	0	(383,139)	0	181,014	0	(202,125)	100.00%
Change in net assets	(448,943)	38,269	47,491	188,077	(401,452)	226,346	-277.36%
Net assets beginning of year, as restated (Note 10)	10,955,440	10,917,171	422,558	234,481	11,377,998	11,151,652	2.03%
Net assets end of year	\$ 10,506,497	10,955,440	470,049	422,558	10,976,546	11,377,998	-3.53%

Property tax and unrestricted state grants account for 67.38% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.38% of the revenue from business type activities.

The District's total revenues were approximately \$15.11 million of which \$14.36 million was for governmental activities and less than \$0.75 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.01% increase in revenues and a 13.29% increase in expenses. Unrestricted state grants increased \$145,058 and local tax increased \$65,166 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$14,359,959 and expenses were \$14,808,902.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,992,119	5,618,565
Support services	3,799,183	3,771,694
Other expenses	3,017,600	2,219,275
Totals	<u>\$ 14,808,902</u>	<u>11,609,534</u>

- The cost financed by users of the District's programs was \$944,546.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,254,822.
- The net cost of governmental activities was financed with \$3,716,006 in local tax, \$934,971 in local option sales and service tax, \$5,960,287 in unrestricted state grants, and \$82,639 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$752,461 and expenses were \$704,970. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Creston Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,740,324, below last year's ending fund balances of a \$2,351,631.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Increase in the state revenue during the year resulted in an increase in revenues. Normal increases in insurance and transportation and maintenance costs allowed for an increase in expenditures during the year. The increase in expenditures was more than the increase in revenues ensuring a decrease in the financial position of the District.
- The Capital Projects fund balance decreased during the current year, from \$394,632 to \$309,824.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$422,558 at June 30, 2005 to \$470,049 at June 30, 2006, representing an increase of 11.24%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$119,464 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$22,794,553, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.43% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$725,228.

The original cost of the District's capital assets was \$30,222,565. Governmental funds account for \$29,705,860 with \$516,705 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$727,497 at June 30, 2005, compared to \$687,608 reported at June 30, 2006.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 340,140	340,140	0	0	340,140	340,140	0.00%
Buildings	21,209,021	21,732,285	0	0	21,209,021	21,732,285	-2.41%
Improvements other than buildings	687,608	727,497	0	0	687,608	727,497	-5.48%
Machinery and equipment	299,323	285,597	258,461	276,323	557,784	561,920	-0.74%
Total	\$ 22,536,092	23,085,519	258,461	276,323	22,794,553	23,361,842	-2.43%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$13,666,363 in general obligation bonds, capital loan notes and early retirement. This represents a decrease of approximately 4.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$12,170,000 at June 30, 2006.

The District had total outstanding capital loan notes payable of \$1,370,000 at June 30, 2006.

The District also had total outstanding early retirement payable of \$126,363 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 12,170,000	12,650,000	-3.8%
Capital loan notes	1,370,000	1,500,000	-8.7%
Early retirement	126,363	226,836	-44.3%
Total	<u>\$ 13,666,363</u>	<u>14,376,836</u>	<u>-4.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District experienced an increase in enrollment of 19.3 students. Hopefully, this will be a continuing trend to help maintain stability in the District.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donald M. Krings, District Business Manager, Creston Community School District, 619 N Maple, Creston, Iowa, 50801.

BASIC FINANCIAL STATEMENTS

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 730,983	0	730,983
Other	1,357,403	190,292	1,547,695
Receivables:			
Property tax:			
Delinquent	64,580	0	64,580
Succeeding year	4,041,685	0	4,041,685
Accounts	0	10,930	10,930
ISCAP accrued interest(Note 4)	227	0	227
Due from other governments	410,431	0	410,431
Inventories	0	17,091	17,091
Capital assets, net of accumulated depreciation(Note 5)	22,536,092	258,461	22,794,553
TOTAL ASSETS	29,141,401	476,774	29,618,175
LIABILITIES			
Accounts payable	0	409	409
Interest payable	103,556	0	103,556
ISCAP warrants payable(Note 4)	732,000	0	732,000
ISCAP accrued interest payable(Note 4)	186	0	186
ISCAP unamortized premium	5,571	0	5,571
Deferred revenue:			
Succeeding year property tax	4,041,685	0	4,041,685
Other	85,543	6,316	91,859
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	500,000	0	500,000
Capital loan notes	135,000	0	135,000
Early retirement	100,461	0	100,461
Portion due after one year:			
General obligation bonds	11,670,000	0	11,670,000
Capital loan notes	1,235,000	0	1,235,000
Early retirement	25,902	0	25,902
TOTAL LIABILITIES	18,634,904	6,725	18,641,629
NET ASSETS			
Investment in capital assets, net of related debt	9,470,736	258,461	9,729,197
Restricted for:			
Early intervention	17,883	0	17,883
Talented and gifted	86,554	0	86,554
Salary improvement program	503	0	503
Other	35,530	0	35,530
Other special revenue purposes	75,249	0	75,249
Unrestricted	820,042	211,588	1,031,630
TOTAL NET ASSETS	\$ 10,506,497	470,049	10,976,546

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Contributions and Restricted Interest	Grants, Contributions and Restricted Interest	Govern-mental Activities	Business-Type Activities	
Governmental activities:							
Instruction:							
Regular instruction	\$ 4,867,714	300,608	1,267,597	0	(3,299,509)	0	(3,299,509)
Special instruction	1,719,109	231,211	86,174	0	(1,401,724)	0	(1,401,724)
Other instruction	1,405,296	412,529	75,435	0	(917,332)	0	(917,332)
	7,992,119	944,348	1,429,206	0	(5,618,565)	0	(5,618,565)
Support services:							
Student services	331,017	0	0	0	(331,017)	0	(331,017)
Instructional staff services	297,989	0	0	0	(297,989)	0	(297,989)
Administration services	1,413,425	0	0	0	(1,413,425)	0	(1,413,425)
Operation and maintenance of plant services	1,239,685	0	0	0	(1,239,685)	0	(1,239,685)
Transportation services	517,067	198	27,291	0	(489,578)	0	(489,578)
	3,799,183	198	27,291	0	(3,771,694)	0	(3,771,694)
Other expenditures:							
Facilities acquisitions	1,362,227	0	0	367,068	(995,159)	0	(995,159)
Long-term debt interest	646,547	0	0	0	(646,547)	0	(646,547)
AEA flowthrough	431,257	0	431,257	0	0	0	0
Depreciation(unallocated) *	577,569	0	0	0	(577,569)	0	(577,569)
	3,017,600	0	431,257	367,068	(2,219,275)	0	(2,219,275)
Total governmental activities	14,808,902	944,546	1,887,754	367,068	(11,609,534)	0	(11,609,534)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	704,970	305,184	442,605	0	0	42,819	42,819
Total business-type activities	704,970	305,184	442,605	0	0	42,819	42,819
Total	\$ 15,513,872	1,249,730	2,330,359	367,068	(11,609,534)	42,819	(11,566,715)
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,965,915	0	2,965,915
Debt services					493,323	0	493,323
Capital outlay					256,768	0	256,768
LOST					934,971	0	934,971
Unrestricted state grants					5,960,287	0	5,960,287
Unrestricted investment earnings					82,639	4,672	87,311
Sale of equipment					63,174	0	63,174
Other					403,514	0	403,514
Total general revenues					11,160,591	4,672	11,165,263
Changes in net assets					(448,943)	47,491	(401,452)
Net assets beginning of year, as restated(Note 10)					10,955,440	422,558	11,377,998
Net assets end of year					\$ 10,506,497	470,049	10,976,546

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 730,983	0	0	730,983
Other	855,154	150,793	351,456	1,357,403
Receivables:				
Property tax:				
Delinquent	50,495	0	14,085	64,580
Succeeding year	3,175,117	0	866,568	4,041,685
ISCAP accrued interest(Note 4)	227	0	0	227
Due from other governments	251,400	159,031	0	410,431
TOTAL ASSETS	\$ 5,063,376	309,824	1,232,109	6,605,309
LIABILITIES AND FUND BALANCES				
Liabilities:				
ISCAP warrants payable(Note 4)	732,000	0	0	732,000
ISCAP accrued interest payable(Note 4)	186	0	0	186
ISCAP unamortized premium	5,571	0	0	5,571
Deferred revenue:				
Succeeding year property tax	3,175,117	0	866,568	4,041,685
Other	85,543	0	0	85,543
Total liabilities	3,998,417	0	866,568	4,864,985
Fund balances:				
Reserved for:				
Early intervention	17,883	0	0	17,883
Talented and gifted	86,554	0	0	86,554
Salary improvement program	503	0	0	503
Other	35,530	0	0	35,530
Unreserved:				
Designated for special purpose	99,031	0	0	99,031
Undesignated	825,458	309,824	365,541	1,500,823
Total fund balances	1,064,959	309,824	365,541	1,740,324
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,063,376	309,824	1,232,109	6,605,309

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 1,740,324
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	22,536,092
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(103,556)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, are not reported as liabilities in the governemetal funds.	(13,666,363)
Net assets of governmental activites (page 13)	<u>\$ 10,506,497</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,895,791	934,971	820,215	4,650,977
Tuition	531,819	0	0	531,819
Other	230,826	144,142	660,219	1,035,187
State sources	6,916,138	0	641	6,916,779
Federal sources	794,955	367,068	0	1,162,023
Total revenues	11,369,529	1,446,181	1,481,075	14,296,785
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,831,246	0	95,551	4,926,797
Special instruction	1,719,109	0	0	1,719,109
Other instruction	936,646	0	476,486	1,413,132
	7,487,001	0	572,037	8,059,038
Support services:				
Student services	331,017	0	0	331,017
Instructional staff services	292,024	0	0	292,024
Administration services	1,413,086	0	10,339	1,423,425
Operation and maintenance of plant services	1,172,998	0	62,869	1,235,867
Transportation services	552,273	0	8,989	561,262
	3,761,398	0	82,197	3,843,595
Non-instructional:				
Food service	0	0	2,868	2,868
Other expenditures:				
Facilities acquisitions	0	943,669	432,974	1,376,643
Long-term debt:				
Principal	0	0	610,000	610,000
Interest and fiscal charges	0	0	647,865	647,865
AEA flowthrough	431,257	0	0	431,257
	431,257	943,669	1,690,839	3,065,765
Total expenditures	11,679,656	943,669	2,347,941	14,971,266
Excess(Deficiency) of revenues over(under) expenditures	(310,127)	502,512	(866,866)	(674,481)
Other financing sources(uses):				
Transfers in	0	0	759,313	759,313
Transfers out	0	(587,320)	(171,993)	(759,313)
Sale of equipment	63,174	0	0	63,174
Total other financing sources(uses)	63,174	(587,320)	587,320	63,174
Net change in fund balances	(246,953)	(84,808)	(279,546)	(611,307)
Fund balance beginning of year	1,311,912	394,632	645,087	2,351,631
Fund balance end of year	\$ 1,064,959	309,824	365,541	1,740,324

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (611,307)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlays expenditures in the current year, as follows:

Capital expenditures	\$ 143,321	
Depreciation expense	(692,748)	(549,427)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

610,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,318

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement

100,473

Changes in net assets of governmental activities (page 14)

\$ (448,943)

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 190,292
Accounts receivable	10,930
Inventories	17,091
Capital assets, net of accumulated depreciation	258,461
TOTAL ASSETS	<u>476,774</u>
LIABILITIES	
Accounts payable	409
Deferred revenues	6,316
TOTAL LIABILITES	<u>6,725</u>
NET ASSETS	
Invested in capital assets, net of related debt	258,461
Unrestricted	211,588
TOTAL NET ASSETS	<u>\$ 470,049</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 305,184
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	254,734
Benefits	11,751
Services	9,225
Supplies	395,805
Other	975
Depreciation	32,480
TOTAL OPERATING EXPENSES	<u>704,970</u>
OPERATING LOSS	<u>(399,786)</u>
NON-OPERATING REVENUES:	
Interest	4,672
State sources	8,251
Federal sources	434,354
TOTAL NON-OPERATING REVENUES	<u>447,277</u>
Change in net assets	47,491
Net assets at beginning of year	<u>422,558</u>
Net assets end of year	<u>\$ 470,049</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 287,296
Cash received from miscellaneous operating activities	6,944
Cash payments to employees for services	(266,485)
Cash payments to suppliers for goods or services	(365,575)
Net cash used in operating activities	<u>(337,820)</u>
Cash flows from non-capital financing activities:	
State grants received	8,251
Federal grants received	398,675
Net cash provided by non-capital financing activities	<u>406,926</u>
Cash flows from investing activities:	
Interest on investments	<u>4,672</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(14,618)</u>
Net increase in cash and cash equivalents	59,160
Cash and cash equivalents at beginning of year	<u>131,132</u>
Cash and cash equivalents at end of year	<u>\$ 190,292</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (399,786)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	35,679
Depreciation	32,480
Decrease in inventories	4,503
Increase in accounts receivable	(10,302)
Increase in accounts payable	248
Decrease in deferred revenue	(642)
Net cash used in operating activities	<u>\$ (337,820)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 190,292</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$35,679.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 2,363</u>
LIABILITIES	
Due to other groups	<u>\$ 2,363</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Creston Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Creston, Iowa, and the predominate agricultural territory in Adams, Ringgold and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Creston Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Creston Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold and Union County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for local option sales and service tax revenues and capital improvement expenditures.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,855,572

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 587,320
Debt Service	Special Revenue- Physical Plant and Equipment Levy	171,993
Total		<u>\$ 759,313</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 730,983	227	732,000	186

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. For the year ended June 30, 2006, no ISCAP advance activity was noted.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year, As Restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 340,140	0	0	340,140
Total capital assets not being depreciated	340,140	0	0	340,140
Capital assets being depreciated:				
Buildings	26,381,214	0	0	26,381,214
Land improvements	1,305,864	14,416	0	1,320,280
Machinery and equipment	1,535,321	128,905	0	1,664,226
Total capital assets being depreciated	29,222,399	143,321	0	29,365,720
Less accumulated depreciation for:				
Buildings	4,648,929	523,264	0	5,172,193
Land improvements	578,367	54,305	0	632,672
Machinery and equipment	1,249,724	115,179	0	1,364,903
Total accumulated depreciation	6,477,020	692,748	0	7,169,768
Total capital assets being depreciated, net	22,745,379	(549,427)	0	22,195,952
Governmental activities capital assets, net	\$ 23,085,519	(549,427)	0	22,536,092

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 502,087	14,618	0	516,705
Less accumulated depreciation	225,764	32,480	0	258,244
Business-type activities capital assets, net	\$ 276,323	(17,862)	0	258,461

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 7,877
Other	19,982
Support services:	
Instructional staff services	15,280
Operation and maintenance of plant services	13,449
Transportation	58,591
	115,179
Unallocated depreciation	577,569
Total governmental activities depreciation expense	\$ 692,748
Business-type activities:	
Food services	\$ 32,480

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 12,650,000	0	480,000	12,170,000	500,000
Capital loan notes	1,500,000	0	130,000	1,370,000	135,000
Early retirement	226,836	51,805	152,278	126,363	100,461
Total	\$ 14,376,836	51,805	762,278	13,666,363	735,461

General Obligation

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 1, 2000			Bond Issue of April 1, 2003		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2007	5.20 %	\$ 185,000	9,620	2.20 %	\$ 120,000	2,640

Year Ending June 30,	Bond Issue of May 1, 2003			Bond Issue of May 1, 2003			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2007	4.00 %	\$ 120,000	481,640	5.00 %	75,000	89,180	\$ 500,000	583,080
2008	5.00	455,000	476,840	5.00	65,000	85,430	520,000	562,270
2009	5.00	480,000	454,090	5.20	70,000	82,050	550,000	536,140
2010	5.25	500,000	430,090	5.20	80,000	78,410	580,000	508,500
2011	5.25	530,000	403,840	5.20	80,000	74,250	610,000	478,090
2012	5.25	555,000	376,015	5.20	85,000	70,090	640,000	446,105
2013	4.40	580,000	346,877	3.75	90,000	65,670	670,000	412,547
2014	4.50	610,000	321,357	3.90	95,000	62,295	705,000	383,652
2015	4.60	635,000	293,907	4.00	100,000	58,590	735,000	352,497
2016	4.75	670,000	264,698	4.10	100,000	54,590	770,000	319,288
2017	4.80	695,000	232,872	4.20	110,000	50,490	805,000	283,362
2018	4.88	730,000	199,513	4.30	110,000	45,870	840,000	245,383
2019	4.90	770,000	163,925	4.40	110,000	41,140	880,000	205,065
2020	4.90	805,000	126,195	4.40	120,000	36,300	925,000	162,495
2021	5.00	845,000	86,750	4.40	125,000	31,020	970,000	117,770
2022	5.00	890,000	44,500	4.40	130,000	25,520	1,020,000	70,020
2023		-	-	4.40	450,000	19,800	450,000	19,800
Total		\$ 9,870,000	4,703,109		\$ 1,995,000	970,695	\$ 12,170,000	5,686,064

Capital Loan Notes

In March, 2004, the District issued capital loan notes of \$1,500,000. These notes will be paid from the Physical Plant and Equipment Levy (PPEL) Fund until the year 2015. Details of the District's June 30, 2006 Capital Loan Notes indebtedness is as follows:

Year Ending June 30,	Note Issue of March 1, 2004			
	Interest Rates		Principal	Interest
2007	1.90	% \$	135,000	39,578
2008	2.15		140,000	37,013
2009	2.40		140,000	34,003
2010	2.75		145,000	30,643
2011	2.95		150,000	26,655
2012	3.20		155,000	22,230
2013	3.30		160,000	17,270
2014	3.45		170,000	11,990
2015	3.50		175,000	6,125
Total			\$ 1,370,000	225,505

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-four years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives for each eligible employee is equal to the difference between the employee's annual full-time salary and the annual full-time salary for Step 3 of BA lane on the 2004-2005 salary schedule. Early retirement benefits paid during the year ended June 30, 2006, totaled \$152,278. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$434,272, \$416,329, and \$418,678 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental, life and long-term disability.

District contributions to ISEBA for the year ended June 30, 2006 were \$876,152.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$431,257 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Restatement

This restatement is due to a change in construction in progress. It is being restated \$403,358 due to over recognition of the appropriate amount of expenditures in previous years for the construction of the new elementary/middle school. The machinery and equipment is being restated the following amounts due to corrections in District's fixed asset listing. The restatement of the capital assets is shown as follows:

	Balance 6/30/2005 as Previously Reported	Increases	Decreases	Balance 7/1/2005 as Restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 340,140	0	0	340,140
Construction in progress	403,358	0	403,358	0
Total capital assets not being depreciated	743,498	0	403,358	340,140
Capital assets being depreciated:				
Buildings	26,381,214	0	0	26,381,214
Improvements other than buildings	1,305,864	0	0	1,305,864
Machinery and equipment	1,547,115	0	11,794	1,535,321
Total capital assets being depreciated	29,234,193	0	11,794	29,222,399
Less accumulated depreciation for:				
Buildings	4,648,929	0	0	4,648,929
Improvements other than buildings	578,367	0	0	578,367
Machinery and equipment	1,281,737	0	32,013	1,249,724
Total accumulated depreciation	6,509,033	0	32,013	6,477,020
Total capital assets being depreciated, net	22,725,160	0	(20,219)	22,745,379
Governmental activities capital assets, net	\$ 23,468,658	0	383,139	23,085,519

The effect of the adjustments to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2005, as previously reported	\$ 11,338,579
Capital assets adjustment	(383,139)
Net assets, July 1, 2005, as restated for governmental funds	<u>\$ 10,955,440</u>

(11) Deficit Net Assets

The Debt Service Fund had a deficit unrestricted fund balance of \$5,760 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

CRESTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 6,217,983	309,856	6,527,839	6,466,318	6,466,318	61,521
State sources	6,916,779	8,251	6,925,030	7,057,392	7,057,392	(132,362)
Federal sources	1,162,023	434,354	1,596,377	1,645,000	1,645,000	(48,623)
Total revenues	14,296,785	752,461	15,049,246	15,168,710	15,168,710	(119,464)
Expenditures:						
Instruction	8,059,038	0	8,059,038	9,515,000	8,515,000	455,962
Support services	3,843,595	0	3,843,595	3,695,000	4,545,000	701,405
Non-instructional programs	2,868	704,970	707,838	770,000	920,000	212,162
Other expenditures	3,065,765	0	3,065,765	3,207,278	3,207,278	141,513
Total expenditures	14,971,266	704,970	15,676,236	17,187,278	17,187,278	1,511,042
Excess(deficiency) of revenues over(under) expenditures	(674,481)	47,491	(626,990)	(2,018,568)	(2,018,568)	1,391,578
Other financing sources, net	63,174	0	63,174	0	0	63,174
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(611,307)	47,491	(563,816)	(2,018,568)	(2,018,568)	1,454,752
Balance beginning of year	2,351,631	422,558	2,774,189	2,094,741	2,094,741	679,448
Balance end of year	\$ 1,740,324	470,049	2,210,373	76,173	76,173	2,134,200

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment reclassifying budgeted expenditures from the support services function to the non-instructional function. During the year, the District adopted one budget amendment as reclassification of expenses between functions.

OTHER SUPPLEMENTARY INFORMATION

CRESTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds					
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 20,693	75,249	269,733	365,675	(14,219)	351,456
Receivables:						
Property tax:						
Current year delinquent	1,223	0	4,403	5,626	8,459	14,085
Succeeding year	100,000	0	271,488	371,488	495,080	866,568
TOTAL ASSETS	\$ 121,916	75,249	545,624	742,789	489,320	1,232,109
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	100,000	0	271,488	371,488	495,080	866,568
Total liabilities	100,000	0	271,488	371,488	495,080	866,568
Unreserved fund balances:	21,916	75,249	274,136	371,301	(5,760)	365,541
TOTAL LIABILITIES AND FUND BALANCES	\$ 121,916	75,249	545,624	742,789	489,320	1,232,109

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue					
	Manage-		Physical	Total	Debt	Total
	ment	Student	Plant and	Special		Nonmajor
	Levy	Activity	Equipment	Revenue	Service	Governmental
			Levy			Funds
REVENUES:						
Local sources:						
Local tax	\$ 70,124	0	256,768	326,892	493,323	820,215
Other	2,518	408,880	247,759	659,157	1,062	660,219
State sources	55	0	201	256	385	641
TOTAL REVENUES	72,697	408,880	504,728	986,305	494,770	1,481,075
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	95,551	0	0	95,551	0	95,551
Other instruction	20,000	456,486	0	476,486	0	476,486
Support services:						
Administration services	10,000	339	0	10,339	0	10,339
Operation and maintenance of plant services	62,869	0	0	62,869	0	62,869
Transportation services	8,989	0	0	8,989	0	8,989
Non-instructional:						
Food service	2,868	0	0	2,868	0	2,868
Other expenditures:						
Facility acquisition	0	0	432,974	432,974	0	432,974
Long-term debt:				0		
Principal	0	0		0	610,000	610,000
Interest and fiscal charges	0	0		0	647,865	647,865
TOTAL EXPENDITURES	200,277	456,825	432,974	1,090,076	1,257,865	2,347,941
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(127,580)	(47,945)	71,754	(103,771)	(763,095)	(866,866)
Other financing sources:						
Transfer in	0	0	0	0	759,313	759,313
Transfer out	0	0	(171,993)	(171,993)	0	(171,993)
Total other financing sources	0	0	(171,993)	(171,993)	759,313	587,320
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES	(127,580)	(47,945)	(100,239)	(275,764)	(3,782)	(279,546)
Fund balance beginning of year	149,496	123,194	374,375	647,065	(1,978)	645,087
Fund balance end of year	\$ 21,916	75,249	274,136	371,301	(5,760)	365,541

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 0	3,382	1,821	1,561
Vocal	2,700	22,142	12,882	11,960
Frosh-Soph festival	443	376	391	428
HS general athletics	24,207	127,928	138,307	13,828
Marching panthers	0	76,968	77,948	(980)
Industrial arts	3	0	0	3
Special olympics	1,864	1,430	1,888	1,406
Boys basketball	1,079	4,530	5,464	145
Football	2,698	0	17,403	(14,705)
Baseball	0	0	6,535	(6,535)
Tennis	406	2,244	2,522	128
Golf	0	226	226	0
Wrestling	77	3,431	3,147	361
Girls basketball	1,158	2,639	1,953	1,844
Volleyball	1,150	516	536	1,130
Softball	0	0	4,333	(4,333)
Girls track	1	1,162	1,162	1
Soccer	0	418	124	294
MS general athletics	40,577	476	49,029	(7,976)
Elementary library	1,143	0	1,126	17
Alternative school	1,265	0	0	1,265
Alumni	500	0	(1,984)	2,484
Class of 06	1,580	30	713	897
Class of 07	0	8,687	5,863	2,824
Class of 08	145	595	174	566
Class of 09	2,927	379	2,838	468
National honor society	0	339	339	0
Student government	4,410	4,382	5,260	3,532
Peppers	3,619	4,109	3,344	4,384
Cheerleaders	431	5,621	4,981	1,071
Big sister/little sister	1,510	0	0	1,510
FCCLA	1,375	171	363	1,183
Spanish club	36	1,712	1,747	1
FFA	9,956	51,334	37,467	23,823
Crest/yearbook	1,213	22,915	10,021	14,107
Teachers lounge	1,886	0	246	1,640
JDC	48	283	74	257
HS weight room	2,478	7,392	6,164	3,706
Interest	1,774	1,756	638	2,892
Entrepreneur	922	404	863	463
Clearing account	1,124	44,620	44,290	1,454
Library	0	700	0	700
Hawkeye 10 conference	8,489	5,583	6,627	7,445
Total	\$ 123,194	408,880	456,825	75,249

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 4,650,977	4,675,468	4,586,430	4,112,321
Tuition	531,819	417,718	544,102	691,682
Other	1,035,187	992,047	697,535	742,885
State sources	6,916,779	6,564,307	6,252,892	6,281,847
Federal sources	1,162,023	801,998	1,644,172	487,491
Total	<u>\$ 14,296,785</u>	<u>13,451,538</u>	<u>13,725,131</u>	<u>12,316,226</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,926,797	4,492,302	4,566,081	4,362,639
Special instruction	1,719,109	1,689,582	2,434,811	2,081,776
Other instruction	1,413,132	1,479,975	1,173,527	1,053,002
Support services:				
Student services	331,017	318,548	264,642	265,203
Instructional staff services	292,024	419,125	274,942	218,851
Administration services	1,423,425	1,214,908	940,627	902,311
Operation and maintenance of plant services	1,235,867	1,178,766	710,303	797,819
Transportation services	561,262	355,322	359,042	342,906
Central support services	0	0	105,806	98,706
Non-instructional:				
Food service	2,868	0	0	0
Other expenditures:				
Facilities acquisitions	1,376,643	2,746,755	10,856,929	2,788,560
Long Term Debt:				
Principal	610,000	460,000	445,000	475,000
Interest	647,865	673,912	644,876	607,126
AEA flow-through	431,257	421,173	421,480	452,020
Total	<u>\$ 14,971,266</u>	<u>15,450,368</u>	<u>23,198,066</u>	<u>14,445,919</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 06	\$ 35,679
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	86,415
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	230,606
			<u>317,021</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 06	<u>81,654</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	227,395
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	8,977
			<u>236,372</u>
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM (TITLE I MIGRANTS)	84.011	FY 06	<u>17,544</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	651
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 06	5,622
			<u>6,273</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>13,201</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	40,910
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	39,699
			<u>80,609</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 06	<u>8,550</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>17,267</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>86,174</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
HURRICANE KATRINA RELIEF	93.776	FY 06	13,500
TOTAL			<u>\$ 913,844</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Creston Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Creston Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Creston Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creston Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

Compliance and Other Matters

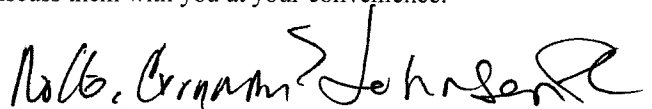
As part of obtaining reasonable assurance about whether Creston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Creston Community School District and other parties to Creston Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Creston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 20, 2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Creston Community School District

Compliance

We have audited the compliance of Creston Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Creston Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Creston Community School District's management. Our responsibility is to express an opinion on Creston Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Creston Community School District's compliance with those requirements.

In our opinion, Creston Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

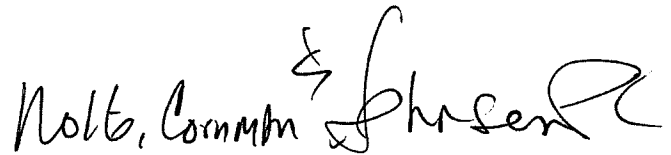
Internal Control Over Compliance

The management of Creston Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Creston Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Creston Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Creston Community School District and other parties to whom Creston Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson". The signature is stylized and cursive, with a large, prominent "J" at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

September 20, 2006

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies

Clustered Programs:

 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Creston Community School District did not qualify as a low-risk auditee.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

II-C-06 Receipting Process - During the audit, it was noted in the Activity Fund that receipts were not being given to sponsors or students bringing money to the District's high school office. Sponsors drop off money on the Activity Fund secretary's desk to be counted and receipted with no supporting documentation or reconciliation sheets as to where the money came from. It appeared that deposits slips from the bank reconciled to what was receipted into the District's software system. But when asked for a pre-numbered receipt book to determine the composition and accuracy of the bank deposit, it was discovered that a pre-numbered receipt book was not being used.

Recommendation - The District should review its receipting process and implement the use of a pre-numbered receipt book. The receipt book is necessary to be able to trace the composition and accuracy of bank deposits as well as safeguarding the assets of the District.

Response - We have implemented the use of a pre-numbered receipt book.

Conclusion - Response accepted.

II-D-06 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date and are not being kept on the District's software system. Fixed assets are required to be maintained for financial statement presentation.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets for reporting purposes.

Response - We are planning on having the inventory updated by an outside vendor.

Conclusion -- Response accepted.

II-E-06 Student Activity Funds - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, the Student Activity Fund included a library account and a clearing account. Revenues and expenditures from these accounts would appear to not meet the criteria of the Student Activity Fund. The funds in these accounts would be more appropriately handled through the General Fund.

There was an interest account in the Student Activity Fund. Interest earned on investments during the year should be allocated to individual Student Activity Fund accounts on an annual basis.

Response - The District will review the library and clearing accounts and determine the appropriate funds from which these monies can be expended. In the future, interest earned in the Student Activity Fund will be allocated on an annual basis.

Conclusion - Response accepted.

II-F-06 Purchase Orders - We noted during our audit that purchase orders in the Activity Fund were not always completely filled out. We noted instances of purchase orders not having dates on them, not showing what was to be purchased, and at what price. Also, during the audit, it was noted that 33% of Activity Fund disbursements tested did not have a purchase order. It was also noted that 10% of Activity Fund disbursements tested did not have an invoice for the purchase. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. With the proper use of purchase orders, the District can ensure that purchases are properly approved and authorized before purchasing.

In cases when an invoice may not be available, the District should adopt procedures such as requiring additional approval or requiring support document other than an invoice. All supporting documentation for the purchase should be retained by the District.

Response - Payments to vendors will not be made without the appropriate supporting documentation.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

- IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-06 Financial Condition - During our audit we noted that the District had five negative account balances totaling \$34,529 in the Student Activity Fund, and a deficit fund balance of \$5,760 in the Debt Service Fund.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will monitor these funds and investigate any available options to eliminate this deficit.

Conclusion - Response accepted.